CUB's Response to Questions for Interested Parties

Consumer Education

Given the upcoming changes to the electric industry in Illinois, the Commission is correct to focus on the need for customer education. Educational programs that provide customers with information regarding thermostat setting, efficient use of air conditioning and appliances, home insulation, and other measures can help consumers reduce their energy bills. The Commission needs to determine the cost of implementing such programs in a manner designed to reach the customers who need them most, and then determine how they should be funded. Given the utilities' inherent conflict of interest -- the more electricity they sell, the greater their profits -- the consumer education programs must be developed and run by the Commission and consumer advocacy organizations. While customer education is important, it will only be productive if customers can take actions that will lower their bills. Customers must have options to participate in energy efficiency and load reducing programs, as discussed below. Without options, educational efforts will only increase feelings of powerlessness and frustration, and increase cynicism. All parties to this debate agree that retail competition is unlikely to develop for Illinois residential customers anytime soon, as this model has failed throughout the United States. While some cite Texas as a competitive success story, this state is actually the exception that proves the rule. Texas purposefully raised utility prices to create "headroom" for suppliers and, as a result, electricity prices in the state skyrocketed. This is not the type of choice that Illinois customers want.

The challenge for the Commission is to offer choices through the utility that will help customers manage and reduce their electricity bills. Fortunately, new technological

developments and programs provide such an opportunity. Below, we outline the importance of energy efficiency, demand response, and distributed generation and recommend the adoption of several specific policies.

Energy Efficiency

Energy efficiency programs have a great deal of potential to benefit consumers in Illinois. To date, there has been only very limited effort to implement and promote such programs. However, as the rate structure exists today, utilities have a disincentive to implement effective efficiency programs because they earn more when consumers consume more kilowatts. Thus, the Commission and consumer advocates must take the lead on ensuring programs get developed and we cannot rely on the utilities to manage the programs.

In analyzing how to move forward in addressing the state's energy needs, the most important fact in Illinois' electric industry today is the affiliate relationships between our largest utilities and the parent companies that own them and the conflicts these relationships create. Exelon and Ameren subsidiaries make money selling power, giving them a strong incentive to favor higher prices. Until this fundamental conflict is resolved, the utilities have incentives to not fully support energy efficiency programs.

To combat this, the Commission must employ the strongest state oversight to keep ComEd and Ameren from weakening efforts that help customers reduce costs. Ignoring the affiliate relationship puts Illinois customers at great economic peril.

That being said, there are two additional barriers to successful implementation of energy efficiency programs. First, customers often lack adequate knowledge about what

works and what does not. Second, and more importantly, energy efficiency projects often entail higher up-front costs, making them unaffordable for the typical customer.

The first barrier, lack of knowledge, can be addressed by focusing customer education efforts on specific ways to save electricity - such as using compact fluorescent light bulbs, insulating water heaters, and programmable thermostats - and then engaging in a broad-based education campaign. The obvious issue here is money: who pays for such an effort?

Yet while this type of approach is certainly worthy, problems remain even assuming that money could be found to implement a thorough customer education campaign. Not only is it difficult to provide comprehensible information on more sophisticated energy efficiency options, but such an approach does nothing to address the more serious barrier: higher upfront costs. That is why CUB is excited about the possibility of bringing the PAYS (Pay As You Save) program – or something similar – here to Illinois.

The PAYS system enables building owners or tenants to obtain and install money-saving resource efficiency products with no up-front payment and no debt obligation. Those who benefit from the savings pay for these products through a tariffed charge on their utility bill, but only for as long as they occupy the location where the products were installed. The monthly charge is always lower than the product's estimated savings and it remains on the bill for that location until all costs are recovered. Like a loan, PAYS allows for payment over time. However, unlike a loan, the PAYS obligation ends when occupancy ends or the product fails.

In short, PAYS is a performance contracting plan aimed at residential and small business customers. There are no upfront payments, no credit check, no new debt obligations, and *customers only pay when and if they save*. We have attached more information on the PAYS system as Appendix A (see also www.paysamerica.org). Additionally, CUB notes that the PAYS program was initially developed with the support of NARUC, and that the utility's obligations under this plan are minimal. The company would:

- Put charges on bills and collect payments;
- Repay capital provider via a certification agent;
- Notify successor customers of PAYS obligations; and
- Guarantee PAYS bad debt;

The Commission would have to approve a tariff that: defines eligibility; specifies rules and responsibilities of certified contractors, utility, and customers; and identifies a certification agent and its role.

Demand Response

A second choice that should be available to customers is demand response. The results so far from the Energy Smart Pricing Plan (ESPP) run by the Community Energy Cooperative are encouraging. This type of real-time pricing program is not for everyone, but CUB believes all customers should have the option to enroll. Moreover, once a tipping point is reached, real-time pricing can benefit even non-participants, by reducing peak demand and stress on the electric system.

The Commission already has residential RTP programs (that are virtually the same) before it in both the ComEd and Ameren Delivery Service Rate Cases (Docket No.

05-0597 and 06-0070 respectively). The programs that CUB has proposed in these cases capitalize on the success of the existing ESPP program and encourage customer adoption by reducing the financial barriers to participation. CUB's proposals are structured to ensure cost recovery for the utilities, and both ComEd and Ameren support the programs. In addition, these programs utilize a third-party administrator to avoid the utility affiliate conflict issues discussed above.

CUB also supports the adoption of programs that allow customers to automatically respond to peak pricing signals. One example of an automatic demand response program is central air conditioner cycling. This program saves electricity during peak times by using a wireless signal to turn customers' air conditioners on and off every 15 minutes. Customers' fans continue to operate, keeping their homes and businesses comfortable. In exchange for allowing the utility to reduce demand in this way, customers receive a flat rate discount on their monthly bill. Only customers not on a real-time pricing program can participate in a cycling program. However, those customers on a real-time pricing program would still benefit from the peak reductions. We have attached more information on one such program, The Community Energy Cooperative's Central Air Conditioner Cycling Option, as Appendix B (also see http://www.energycooperative.org/pdf/ESPP-AC-cycling-guidelines-English.pdf).

Distributed Generation

Distributed generation allows customers to generate their own electricity to offset or replace the electricity supplied by their electric utility. For example, customers may install small wind turbines or rooftop solar panels to reduce the amount of electricity that they must buy from their electric utility. On a larger scale, businesses may install

renewable energy or fossil fuel generators to produce a portion of their own electricity. There are several regulatory barriers, however, that prevent customers from taking full advantage of these opportunities.

Customer-owned generation equipment often produces electricity at times when the customer does not need it. To use this electricity, customers must either buy a bulky and expensive bank of storage batteries or interconnect with the electrical grid and sell the unused power to their utility. Interconnection with the electrical grid allows customers to use their generation equipment to its full capacity and provides revenues, which helps them finance the equipment. Illinois' regulatory environment, however, does not encourage the interconnection of distributed generation.

Illinois needs standard, statewide net metering rules. Net metering rules allow distributed generation customers to sell excess electricity back into the electricity grid when they do not need it and draw power from the grid when they need more than they can generate. Thus, when customers are generating more electricity than they use, their electric meter runs backwards. When they generate less electricity than they need, the meter runs forward as they draw electricity from the grid, just like customers without generation capacity. Net metering rules should require every electric utility to offer net metering and specify a reasonable, market-based price for the electricity that utilities buy from their customers.

Illinois also should require electric utilities to allow interconnection subject to a standard, statewide interconnection agreement. A standard, statewide agreement will speed the interconnection process, provide certainty for customers considering

investments in generation equipment, and ensure that all agreements include reasonable terms for both the customer and utility.

We have attached a set of model net metering and interconnection standards as Appendix C. More information on net metering rules and interconnection agreements offered by other states is available from www.dsireusa.org.

CONCLUSION

Educational programs, efficiency programs, demand response programs, and distributed generation all play an important role in Illinois' energy future. The Commission should consider these programs in the context of a broader strategy for Illinois' energy future.